

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 06-18

DATE: July 28, 2006

TO: Honorable Council President and Members of the City Council

FROM: Tom Haynes, Fiscal & Policy Analyst

SUBJECT: Fiscal Year 2007 Tax Rate Ordinance

Charter Section 75 requires the City Council to adopt a Tax Rate Ordinance (TRO) no later than August 31 of each year. The TRO establishes the property tax rate that is required to generate sufficient revenue for the upcoming fiscal year. Proposition 13, approved by California voters in 1978, set a maximum property tax rate of 1%. In the years since, the TRO has been used to set supplemental tax rates that are above and beyond the 1% cap, pursuant to the exceptions outlined by State law. For instance, State law permits a supplemental property tax to be levied for the purposes of funding voter-approved General Obligation bonds.

The City of San Diego levies a supplemental property tax for two different purposes. One of the tax levies is required to fund voter-approved General Obligation bonds for the Public Safety Communications Project. In FY 2007, the debt service and interest payment on the Public Safety Communication bonds is \$2,329,935. Based on the assessed valuation report from the County, it has been determined that a tax rate of \$0.00124 per \$100 of assessed value will generate sufficient revenue to cover the required payment.

The other supplemental tax is levied pursuant to Charter Section 77a, which requires a tax of two cents (\$0.02) on each \$100 of assessed value be used exclusively for the maintenance of zoological exhibits in Balboa Park. Several years ago a change in State law redefined assessed value to be 100% of full value. When Charter Section 77a was adopted, assessed value was defined as 25% of full value. Therefore, a conversion factor of one-fourth (1/4) was applied to all existing tax rates, including that for zoological exhibits. As a result, the tax levy for zoological exhibits is now equal to \$0.005 per \$100 of assessed value. This conversion is established by the TRO.

The IBA has reviewed and concurs with the tax rate calculations. However, it should be noted that the revenue generated from the zoological exhibits tax levy is estimated to be approximately \$8.4 million, while the FY 2007 budget for Zoological Exhibits is \$7.7 million. Since the assessed valuation report was not available from the County prior to budget development, this revenue estimate could not be made in time for the FY 2007 budget. This discrepancy may require an amendment to the Appropriation Ordinance at a later point should tax revenues come in above the budgeted amount.